

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 IO-13 ISO-00 AID-05 CIAE-00 COME-00

EB-08 FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02

OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-07 CEA-01 ACDA-12 HA-05 AGR-01 DOE-15 SOE-02

PM-05 DODE-00 PA-01 /157 W

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R 170722Z AUG 78

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 4063

INFO AMCONSUL BRISBANE

AMCONSUL PERTH

USMISSION GENEVA

AMEMBASSY JAKARTA

AMCONSUL MELBOURNE

AMEMBASSY PARIS

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TAGS: ECRP, ECON, EGEN, EFIN, BEXP, EALR, ELAB, AS

SUBJ: FY 79 AUSTRALIAN FEDERAL BUDGET - CERP 0200

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REF:(A) CANBERRA 5424(NOTAL),(B) 77 CANBERRA 5701(NOTAL)

(C) CERP 0200, (D) 77 CANBERRA 5777

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1. SUMMARY: FOLLOWING ARE MAIN ELEMENTS IN FY 79 GOA

BUDGET INTRODUCED IN PARLIAMENT AUGUST 15. ALL DOLLAR FIGURES ARE IN AUSTRALIAN DOLLARS; CURRENT PARITY IS AUSTRALIAN DOLLARS 1.00 EQUALS U.S. DOLLARS 1.17. BUDGET PROVIDES FOR TOTAL OUTLAYS IN FY 79 OF DOLS 28870 MILLION, AN INCREASE OF 7.7 PERCENT OVER FY 78. TOTAL RECEIPTS ARE ESTIMATED TO INCREASE TO DOLS 26057 MILLION, OR 11 PERCENT OVER FY 78. THE OVERALL DEFICIT IS ESTIMATED AT DOLS 2813 MILLION, A REDUCTION OF DOLS 521 MILLION ON FY 78. AFTER ALLOWANCES FOR OVERSEAS TRANSACTIONS, THE DOMESTIC DEFICIT IS ESTIMATED AT DOLS 1669 MILLION, DOWN SOME DOLS 782 MILLION FROM FY 78. BUDGET IMPACT IS FOR NO GROWTH IN ECONOMY OVER NEXT 12-18 MONTHS; SEEMS DESIGNED TO BOOST INDUSTRY BY NEGLECT. PAYMENTS TO STATE AND LOCAL AUTHORITIES ARE INCREASED; WHEREAS A FURTHER REDUCTION IN THE COMMONWEALTH PUBLIC SERVICE IS FORECAST. INCREASES ARE PROGRAMMED FOR EDUCATION, HOUSING, DEFENSE, OVERSEAS AID, IMMIGRATION (INDO-CHINESE REFUGEES), TRANSPORT AND COMMUNICATIONS, RURAL INDUSTRIES AND ASSISTANCE TO EXPORTERS. TREASURY PREDICTS THAT REAL GROWTH IN GROSS NON-FARM PRODUCT OF 4 PERCENT. GROWTH IN MONEY SUPPLY FORECAST AT 6-8 PERCENT. INFLATION RATE IS EXPECTED TO DROP FROM THE PRESENT 7.9 PERCENT TO 5 PERCENT BY MID-1979. END SUMMARY.

2. RECEIPTS NEW MEASURES:

INCOME TAX: THE STANDARD RATE OF PERSONAL INCOME TAX WILL BE INCREASED BY ONE AND ONE HALF PERCENT FROM 32 PERCENT TO 32 LIMITED OFFICIAL USE

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AND ONE HALF PERCENT; THERE WILL BE CORRESPONDING INCREASES TO 47 AND ONE HALF PERCENT AND SIXTEEN AND ONE HALF PERCENT AT HIGHER LEVELS OF INCOME. HOWARD ANNOUNCED FURTHER ACTION IN PROGRAM (INITIATED IN FY 78 BUDGET) FURTHER TO BRING ALL AUSTRALIAN CRUDE OIL PRICES UP TO WORLD PARITY LEVELS BY ANNOUNCING AS REGARDS THE CRUDE OIL POLICY AND THE PRODUCTION LEVY, THAT AN INCREASED PRODUCTION LEVY ON BASS STRAIT NON-PARITY OIL WILL BE IMPOSED FROM THE PRESENT RATE OF DOLS 18.90 PER KILOLITER (ABOUT DOLS 3 PER BARREL) TO DOLS 64.53 PER KILOLITER (ABOUT DOLS 10.26 PER BARREL) FOR THE PERIOD ENDING DECEMBER 31, 1978; FOR BARROW ISLAND THE NET LEVY PAID ON NON-PARITY OIL WILL BE DOLS 61.39 PER KILOLITER (ABOUT DOLS 9.76 PER BARREL).

3. IMPORT QUOTAS: ADDITIONAL CUSTOMS DUTY OF 12 AND ONE HALF PERCENT ON CERTAIN GOODS SUBJECT TO TARIFF QUOTA AND IMPORT LICENSING CONTROLS (THIS WILL BE SUBJECT OF SEPTEL). EXCISE: BEER INCREASED BY 12.6 PERCENT PER LITER; POTABLE SPIRITS INCREASED TO DOLS 18.75 PER LITER OF ALCOHOL; CIGARETTES INCREASED BY DOLS 5.30 PER KILOGRAM TO DOLS 24.75 PER KILOGRAM. SALES TAX: MOTOR CARS AND STATION WAGONS RATE WILL BE DECREASED FROM 27 AND ONE HALF PERCENT TO 15

PERCENT; THE COAL EXPORT DUTY WILL BE ABOLISHED EFFECTIVE MIDNIGHT JUNE 30, 1979. DEPARTURE TAX: HOWARD ANNOUNCED THE INTRODUCTION OF A GENERAL REVENUE TAX OF DOLS 10.00 OH ADULTS DEPARTING FROM AUSTRALIA BY SEA OR AIR; THE TAX WILL OPERAE FORM MID-SEPTEMBER 1978 AND WILL BE COLLECTED FROM AUSTRALIAN RESIDENTS AND OVERSEAS VISITORS WHEN LEAVING AUSTRALIA.

4. OUTLAYS:

STAES AND LOCAL AUTHORITIES: PAYMENTS TO STATES AND LOCAL AUTHORITIES UNDER TAX-SHARING ARRANGEMENTS ARE ESTIMATED TO INCREASE BY 10.7 PERCENT AND 8.5 PERCENT RESPECTIVELY. THE NORTHERN TERRITORY IS TO RECEIVE A BLOCK GRANT OF DOLS 280 MILLION IN FY 79 FOLLOWING ITS ATTAINMENT OF SELF GOVERNMENT. LIMITED OFFICIAL USE

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CENTRAL GOVERNMENT EXPENDITURES: A FURTEHR REDUCTION OF STAFF CEILINGS IN THE PUBLIC SERVICE IS FORECAST MEANING A FURTHER REDUCTION OF STAFF OF SOME 2,600 OR ABOUT 0.8 PERCENT.

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5. OUTLAYS BY SECTOR AND PERCENTAGES OF INCREASE OR
DECREASE OVER FY 78 ARE AS FOLLOWS(IN DOLS MILLIONS):
SOCIAL SECURITY AND WELFARE, DOLS 8 BILLION(UP 10.3 PERCENT);
HEALTH EDUCATION, DOLS 2500 MILLION(UP 6 PERCENT); HOUSING,
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DOSL 14 MILLION(UP 40 PERCENT); THIS IS PART OF A THREE
YEAR SCHEME UNDER WHICH ASSISTANCE WILL BE PROVIDED TO THE
STATES FOR RENTAL ASSISTANCE TO PENSIONERS, INCLUDING
MARRIED COUPLES. THE BUDGET ALSO INCLUDES DOLS 10 MILLION
FOR DEFENSE SERVICE HOMES (DOWN 52 PERCENT); DOLS 20 MILLION
IS PROVIDED FOR HOME SAVINGS GRANTS (DOWN 43 PERCENT);
ADVANCES TO STATES FOR HOUSING, DOLS 316 (DOWN 19 PERCENT);
DEFENSE, DOLS 2501 MILLION(UP 5 PERCENT); EXPENDITURE ON
DEFENSE CAPITAL EQUIPMENT, DOLS 355 MILLION(UP 13 PERCENT)
(FULL DETAILS REPORTED SEPTEL); OVERSEAS AID, DOLS 455
MILLION (UP 8.6 PERCENT); TRAINING PRORAMS, DOLS 173
MILLION(UP 44 PERCENT); TRANSPORT, DOLS 787 MILLION(UP
21 PERCENT); ASSISTANCE TO RURAL INDUSTRIES, DOLS 40
MILLION IS ALSO INCLUDED FOR THE CONTINUATION OF THE SUPER-
PHOSPHATE BOUNTY. THE NITROGENOUS FERTILIZER SUBSIDY IS TO
BE EXTENDED FOR ONE YEAR FROM JANUARY 1, 1979 BUT AT A
REDUCED RATE OF DOLS 40 A TON DURING THAT PERIOD; IMMIGRATION,
DOLS 6 AND ONE HALF MILLION IS PROVIDED TO INCREASE THE
SCOPE OF POST ARRIVAL PROGRAMS AND SERVICES FOR MIGRANTS,
MAINLY INDO-CHINESE REFUGEES, SOME 10,000 OF WHOM ARE
PROGRAMMED FOR RE-SETTLEMENT. (BUDGET OUTLINES IN MORE
DETAIL BY KEY SECTORS FOLLOWS SEPTEL.)

6. ECONOMIC OUTLOOK: THE GOA'S BROAD AIM IN ITS BUDGET IS
TO IMPACT ON PRIMARY LIQUIDITY OR THE VOLUME OF MONEY (M3)
BY KEEPING ITS GROWTH IN THE RANGE OF 6 TO 8 PERCENT DURING
FY 79, DOWN FORM THE 8-10 PERCENT RANGE OF FY 78 AND THE
10-12 PERCENT RANGE TARGETED IN FY 77. PREDICTIONS ON THE
RATE OF INFLATION ARE THAT IT IS EXPECTED TO DROP FROM THE

PRESENT U.9 PERCENT RATE TO SOME 5 PERCENT BY MID-1979 WHICH IS, OF COURSE, EXPECTED TO CONTAIN WAGE AND PRICE PRESSURES. THE GOVERNMENT SEEMS TO SEE ITS POLICY OF INDUCING A HIGH PROPENSITY TO SAVE AS HAVING HELPED IT TO TURN AROUND THE LIMITED OFFICIAL USE

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INFLATIONARY CYCLE AND, NOTWITHSTANDING THE HIGH UNEMPLOYMENT RATES, SEEMS DETERMINED TO ADHERE TO THIS POLICY. IN AN ADDRESS AT THE NATIONAL PRESS CLUB ON AUGUST 16, TREASURER HOWARD SAID THAT THE GOVERNMENT HAD ASSUMED A CONSIDERABLE INCREASE IN UNEMPLOYMENT IN WORKING ON THE BUDGET, AND THAT HE DID NOT THINK UNEMPLOYMENT COULD RETURN TO THE LOW LEVELS OF THE 1950S AND 1960S.

7. THE GROWTH OF GROSS NON-FARM PRODUCT IS FORECAST AT 4 PERCENT IN REAL TERMS IN FY 79 AND IN GROSS DOMESTIC PRODUCT IN REAL TERMS IN FY 79 AS OVER 4 PERCENT AS A WHOLE. THE GOVERNMENT'S ASSUMPTIONS ON THE CONSUMER PRICE INDEX ARE TIED TO THE AVERAGE OF INDEXATION DECISIONS WHICH ARE PROJECTED TO RISE BY ABOUT 6 PERCENT IN FY 79. THIS MAKES ALLOWANCE FOR THE WAGE DETERMINATION GUIDELINES, WHICH NOTWITHSTANDING SOME SUBSTANTIAL AWARD INCREASES IN THE MINING SECTOR RECENTLY, STILL ALLOWS THE GOVERNMENT TO FORECAST A 6 PERCENT OVERALL RISE IN THE CPI AS COMPARED WITH A 9 AND ONE HALF PERCENT RISE IN FY 78.

8. INVESTMENT IN PLANT AND EQUIPMENT IS EXPECTED TO BE DOWN IN FY 79 AS A RESULT OF THE DECREASE IN THE INVESTMENT ALLOWANCE WHICH EXPIRED AT THE END OF JUNE. THERE IS EXPECTED TO BE A BALANCE OF PAYMENTS DEFICIT THROUGHOUT MOST OF FY 79 WITH A PERCEIVED NEED FOR A CONTINUATION OF THE GOVERNMENT'S OVERSEAS BORROWING PROGRAM WHICH INDEED HAS ALREADY GOT UNDERWAY. THE GOVERNMENT ANTICIPATES EXPORTS OF GOODS AND SERVICES TO RISE MORE RAPIDLY IN FY 79 THAN IN FY 78 ALTHOUGH AT WHAT SEEMS LIKELY TO BE AT A SOMEWHAT SUBDUED RATE. THE CURRENT ACCOUNT DEFICIT IS EXPECTED TO CONTINUE RISING AT THE RATE OF THE LATER HALF OF FY 78 WHICH IS EXPECTED TO RESULT IN A HIGHER DEFICIT THAN IN FY 78. ON CAPITAL ACCOUNT, THE GOVERNMENT FORECASTS A NET PRIVATE CAPITAL INFLOW WHICH WILL STRENGTHEN OVER THE COURSE OF THE YEAR WHICH THE GOVERNMENT BASES ON EXPECTED GROWTH IN INVESTMENT ACTIVITY DURING THE COURSE OF THE YEAR WITH A LIMITED OFFICIAL USE

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RESULTANT IMPROVEMENT IN THE BALANCE OF PAYMENTS AND IN THE AUSTRALIAAN GOVERNMENT'S RESERVE POSITION.

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9. COMMENT: THIS BUDGET IS AUSTERE IN THE EXTREME. IT HAS, AS EXPECTED, PRECIPITATED SEVERE CRITICISM FROM THE OPPOSITION AND THE TRADE UNIONS. NEVERTHELESS, THE GOVERNMENT(WHICH REALLY MEANS PRIME MINISTER FRASER) EVIDENTLY WILL NOT BE DETERRED FROM WHAT IT SEES AS THE PROPER COURSE, I.E., BRING DOWN THE RATE OF INFLATION AND LET THE OPPOSITION BE DAMNED. THE REACTION OF THE PRIVATE SECTOR HAS BEEN VERY POSITIVE HOWEVER. THE STOCK MARKET REACTION SHOWED THAT THERE WAS A FIRM STAMP OF APPROVAL AS SHARES ACROSS-THE-BOARD ROSE PUSHING THE SYDNEY INDEX TO ITS HIGHEST POINT IN FOUR AND ONE HALF YEARS. ALTHOUGH THE SHORT TERM PROSPECTS FOR DOMESTIC AND FOREIGN DIRECT INVESTMENTS ARE NOT BRIGHT GIVEN CURRENT RATES OF UNDERUTILIZATION OF PLANT CAPACITY IN AUSTRALIA AND THE SLUGGISH PERFORMANCE OF OVERSEAS ECONOMIES ON WHICH AUSTRALIA IS SO HEAVILY DEPENDENT FOR ITS PRIMARY EXPORTS, THE LONG TERM PROSPECTS ARE MUCH MORE BULLISH. THE PROBLEM IS HOWEVER THAT THE GOVERNMENT DOES NOT SEEM TO BELIEVE THAT IT IS OUT OF SEQUENCE WITH THE OVERSEAS CYCLE. THUS ITS FORECASTS FOR IMPROVEMENT IN ITS BALANCE OF PAYMENTS AND CURRENT ACCOUNT DEFICIT APPEAR OVERLY OPTIMISTIC. OUR SOUNDINGS WITH THE PRIVATE BANKS SUGGEST, FOR EXAMPLE, THAT FOREIGN MULTINATIONALS ARE BORROWING IN THE DOMESTIC MARKET AND USING THEIR AFTER TAX INCOME TO REPAY OFFSHORE DEBT. THE EXTERNAL CAPITAL INFLOWS ARE NOT MATERIALIZING AT THE RATES EXPECTED BY THE GOVERNMENT.

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Message Attributes

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